

217360

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2009-48-S

In Re:

Daufuskie Island Utility Company, Inc.
(formerly Haig Point Utility Company, Inc.)
Complaint/Petitioner v. Melrose Utility
Company, Inc., Defendant/Respondent

Direct Testimony

of

John F. Guastella

on behalf of

Daufuskie Island Utility Company, Inc.

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1 **Q. Please state your name and business address.**

2 A. John F. Guastella, 6 Beacon Street, Suite 410, Boston, MA 02108.

3

4 **Q. By whom are you employed?**

5 A. I am president of G₂ Utility Management, LLC ("G₂") a corporation that I formed to provide
6 day-to-day management services to water and wastewater utilities. G₂ has been retained by
7 Daufuskie Island Utility Company, Inc. ("DIUC") to manage its day-to-day operations. I am
8 also president of Guastella Associates, Inc. which I formed in 1978 to provide management, rate
9 and valuation consulting services to investor-owned and municipal utilities.

10

11 **Q. Have you attached a statement of your qualifications and experience?**

12 A. Yes.

13

14 **Q. What is your involvement in this proceeding?**

15 A. By letter dated, January 26, 2009 I wrote to the South Carolina Public Service Commission
16 ("PSC") requesting that it undertake an investigation of the financial operations of Melrose
17 Utility Company ("Melrose") because it had failed to make all but one monthly payment of its
18 share of the cost of operating the wastewater treatment plant during 2008 in accordance with the
19 terms of a joint-venture agreement between Haig Point Utility Company and Melrose. The
20 resulting shortfall of cash flow to DIUC became critical and could eventually affect our ability to
21 serve our customers.

22

1 **Q. Has Melrose made any further payments since January?**

2 A. Yes, it made one other monthly payment, but as of June 1, 2009 Melrose owes DIUC
3 \$172,674.86 as reflected in the last billing.

4
5 **Q. Have you provided a copy of the last billing?**

6 A. Yes, it is provided as Petitioners Exhibit JFG-2.

7
8 **Q. What other changes have occurred since January?**

9 A. I am aware that Melrose, along with a related or affiliated real estate business or businesses,
10 is now in bankruptcy. Moreover, since early March there apparently were no Melrose employees
11 attending to the system. It is my understanding that one of the owners of the DIUC stockholder
12 has been informally assisting the trustee of the bankrupt entities, and DIUC staff have essentially
13 been operating both the water and wastewater systems of Melrose.

14
15 **Q. Do you have any recommendations regarding the situation?**

16 A. I do not have the legal background to know whether the authority and powers of the ORS or
17 PSC are in any way restricted by the bankruptcy. The outcome that I believe will best serve the
18 customers of both DIUC and Melrose is to make DIUC whole for all its charges to Melrose so
19 that DIUC's earnings and cash flow are restored. I would note that our accounts payable is
20 significant because of the revenue shortfall related to Melrose's failure to pay its share of the
21 costs of the wastewater treatment plant. In addition, because DIUC's staff and management are
22 thoroughly familiar with and now informally involved in Melrose's operation, the most cost
23 effective outcome for the customers of both systems would be to formerly merge Melrose's

1 system into DIUC.

2

3 **Q. Does that conclude your testimony at this time?**

4 A. Yes.

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This is to certify that I, John F. Guastella, have this date served one (1) copy of the **DIRECT TESTIMONY AND EXHIBITS** in the above-referenced matter to the person(s) named below by causing said copy to be sent with sufficient postage via UPS overnight express mail, and addressed as shown below:

Mr. Stephen B. Kiser
600 Main Street
Hilton Head Island, SC 29926-1680

Mr. Rence Jones
Melrose Utility Company, Inc.
P.O. Box 23285
Hilton Head Island, SC 29926
(via US Regular Mail)

Nanette S. Edwards, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201

Florence P. Belser, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
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Colanthia B. Alvarez
Public Service Commission of South Carolina
Docketing Department
Synergy Business Park
101 Executive Center Drive
Columbia, SC 29210-8411
(1 original plus 10 copies)

Mr. Jamie J. Karabinchak
Daufuskie Island Utility Company
102 Buckthorn Court
Daufuskie Island, SC 29915



John F. Guastella, President
G₂ Utility Management, LLC
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